

## **DEPENDENT CARE SPENDING ACCOUNT GRACE PERIOD TAX IMPLICATIONS**

**Important Notice:** The IRS has changed the 2006 Child and Dependent Care Expenses Tax Form 2441. To account for grace period activity, the IRS has added a new Line 13 to the form. Dependent Care FSA participants must report any carryover amounts from the 2005 tax year that he or she used in 2006 during the plan's grace period. We expect the same will be true for the 2007 tax year.

Following is an example of how this may impact you:

You enrolled for \$5,000 in the 2007 Dependent Care Spending Account, which is the maximum amount permitted for your tax filing status. The State of Michigan allows a grace period for you to use any remaining money left in your 2006 Dependent Care Spending Account following the 2006 plan year.

If your eligible dependent care expenses reimbursed during the 2006 plan year grace period (January 1, 2007 through March 15, 2007) meant that you would actually be reimbursed during 2007 for more than the \$5,000 deduction you elected in the 2007 plan year, the IRS has taken the position that such excess is a taxable event and must be reported by the taxpayer on Form 2441. This also applies to those of you that were in the 2006 Dependent Care Spending Accounts and may have used 2005 dependent care spending account money during the grace period following the 2005 plan year (January 1, 2006, through March 15, 2006).

Assuming you have two or more qualifying individuals and otherwise meet requirements to claim the Dependent Care Tax Credit (DCTC), you may be eligible for a full or partial DCTC up to \$1,000 of your 2007 (or 2006) dependent care expenses that exceed \$5,000. Please consult your tax advisor if you have any questions.